Rising U.S. Exports Could Help Create 5M Jobs By 2020

Manufactured exports—a bright spot of the U.S. economy in recent years—are set to surge. Combined with jobs created as a result of reshoring, higher U.S. exports could add 2.5 million to 5 million jobs by the end of the decade, as manufacturers shift production from leading European countries and Japan to take advantage of substantially lower costs in the U.S., according to new research by The Boston Consulting Group (BCG) [1].

BCG projects that by around 2015, the U.S. will have an export cost advantage of 5 to 25 percent over Germany, Italy, France, the U.K., and Japan in a range of industries. Among the biggest drivers of this advantage will be the costs of labor, natural gas, and electricity. As a result, the U.S. could capture 2 to 4 percent of exports from the four European countries and 3 to 7 percent from Japan by the end of the current decade. This would translate into as much as $90 billion in additional U.S. exports per year, according to BCG's analysis.

When the increase in U.S. exports to the rest of the world is included, annual gains could reach $130 billion. BCG forecasts that the biggest U.S. export gains will be in machinery, transportation equipment, electrical equipment and appliances, and chemicals.

Harold L. Sirkin

"The export manufacturing sector has been the unsung hero of the U.S. economy for the past few years. But this is only the beginning," said Harold L. Sirkin [2], a BCG senior partner and coauthor of the research. "The U.S. is becoming one of the lowest-cost producers of the developed world, and companies in Europe and Japan are taking notice."

The analysis is part of BCG's ongoing "Made in America, Again [3]" series on the changing global economics that are starting to favor manufacturing in the U.S. Previous reports in this series have focused on production and jobs that are likely to be brought back to the U.S. as China's once-formidable cost advantage erodes, but the new research delves more deeply into the competitive position of the U.S. relative to other developed economies. Together, the developed economies account for about 60 percent of global manufactured exports.

The new analysis raises BCG's previous estimate of U.S. job gains. Earlier this year, a BCG report titled *U.S. Manufacturing Nears the Tipping Point: Which Industries, Why, and How Much?* [4] predicted that the U.S. would gain 2 to 3 million jobs from higher exports and production work shifting from China to the U.S.

Although the reshoring trend—also referred to as “insourcing” and “onshoring”—is still in its early stages, several large foreign manufacturers have already announced plans to use the U.S. as an export base for other markets. Toyota, for example, has announced that it will export Camry sedans assembled in Kentucky and Sienna minivans made in Indiana to South Korea, while Honda and Nissan both say that they expect to boost exports of vehicles made in their U.S. plants to the rest of the world. Siemens is building gas turbines in North Carolina to ship to Saudi Arabia for construction of a 4-gigawatt power plant. Rolls-Royce recently opened a new aircraft engine parts manufacturing facility in Virginia citing lower labor costs, productivity and dollarization (doing business in U.S. dollars to mitigate local currency risk).

“Over the coming years, as European and Japanese companies decide where to locate new capacity, we can expect many more announcements like these,” said coauthor Michael Zinser [5], a BCG partner who leads the firm’s manufacturing [6]work in the Americas. “Producing in the U.S. offers increasingly compelling cost advantages—to supply not only North America but also some of the most important overseas markets.”

BCG estimates that average manufacturing costs in 2015 will be 8 percent lower in the U.S. than in the U.K., 15 percent lower than in both Germany and France, 21 percent lower than in Japan, and 23 percent lower than in Italy. Average manufacturing costs in China will still be 7 percent lower than those of the U.S. in 2015. But those costs do not include transportation, duties, and other expenses. And it is less than half of the advantage that China enjoyed a decade ago.

As explained in a previous BCG report [3], when the many risks and hidden costs of managing extended global supply chains are taken into account, it will be just as economical to manufacture many products in the U.S. if those goods are sold in the U.S.

Labor and energy costs will be especially important sources of U.S. competitive advantage in manufacturing. Adjusted for differences in worker productivity, which is considerably higher in the U.S., average labor costs of the other large developed economies will be 20 to 45 percent higher than those of the U.S. Only a decade ago, the same U.S. worker cost only 12 percent less than the average factory worker in Europe.

Inexpensive natural gas will also boost U.S. competitiveness. For the foreseeable future, thanks to the recovery of vast U.S. underground gas deposits of shale, natural gas is likely to remain 50 to 70 percent cheaper in the U.S. than in Europe and Japan, BCG predicts. “That will translate into significantly lower costs for electricity generation, for fuel used to power industrial plants, and for feedstock used across many industrial processes,” said Justin Rose, a BCG principal and coauthor.

Although some of the U.S. gains will come from making products that otherwise would have been imported from Europe and Japan, other gains will come from

higher U.S. export shares in key international trade lanes. For example, in many industries, the U.S. will be significantly more cost competitive than Europe as an export base for Asia. In addition to lower labor and energy prices, it is 59 percent cheaper on average to ship goods from the U.S. to Japan than it is to ship from Europe to Japan. That's because the U.S. is closer to Japan, and rates are much lower for containers departing U.S. ports, where there is significant overcapacity. Similarly, the U.S. will be more attractive than Japan as a base for supplying many goods to Europe.

U.S. exports have risen by 30 percent since 2006, far outpacing growth in gross domestic product. "The signs pointing to continued export growth offer further evidence that the U.S. is poised for a manufacturing renaissance between 2015 and 2020," said Sirkin, whose most recent book, *GLOBALITY: Competing with Everyone from Everywhere for Everything* [7], deals with globalization and emerging markets.

To arrange an interview with a BCG expert, please contact Dave Fondiller at 212 446 3257 or fondiller.david@bcg.com [8].

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